

Message Text

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PAGE 01 OTTAWA 00164 152246Z

61

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SP-02 SS-15 STR-04 TRSE-00 FRB-01 FEA-01 PA-02

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SUBJ ENERGY: B.C./OTTAWA MEETING ON NATURAL GAS

REF OTTAWA 147

1. ACCORDING TO MORNING PRESS REPORTS (WHICH EMBASSY UNDERSTANDS ARE SUBSTANTIALLY CORRECT), JANUARY 14 MEETING IN OTTAWA BETWEEN B.C. PREMIER BARRETT, ENERGY MINISTER MACDONALD, AND ACTING FINANCE MINISTER DRURY, RESULTED IN AGREEMENT TO PUT ASIDE TEMPORARILY BARRETT'S PROPOSAL FOR INCREASES IN NATURAL GAS EXPORT PRICES AND TO WORK TOWARDS SETTLEMENT OF THE DISAGREEMENT OVER RESOURCE TAXATION.

2. WHILE NEITHER SIDE WOULD RELEASE DETAILS OF THE DISCUSSIONS, MACDONALD IS QUOTED (MONTREAL GAZETTE) AS SAYING, "WE BOTH CAME TO THE MEETING WITH DIFFERENT VIEWS AND I THINK WE NARROWED THOSE DIFFERENCES," AND BARRETT REPORTEDLY STATED THAT HE AGREED WITH
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PAGE 02 OTTAWA 00164 152246Z

MACDONALD THAT A DECISION ON BOTH THE DOMESTIC AND

EXPORT PRICE OF NATURAL GAS SHOULD BE LEFT FOR A MEETING OF FIRST MINISTERS SOMETIME WITHIN THE NEXT SIX MONTHS (MARCH IS RUMORED IN OTTAWA).

3. FEDERAL/B.C. DISPUTE OVER NATURAL GAS TAXATION RELATES TO WHAT IS "FAIR MARKET VALUE" OF GAS ON WHICH TO TAX B.C. PRODUCERS. OTTAWA REJECTS AS A BASE THE 22 CENTS PAID TO PRODUCERS BY THE B.C. PETROLEUM CORP., CONTENDING THAT ABOUT 35 CENTS OF THE DIFFERENCE BETWEEN THE 22 CENTS PAID TO THE PRODUCERS AND THE AVERAGE 85 CENTS FOR WHICH B.C. PETROLEUM SELLS THE GAS REPRESENTS DE FACTO ROYALTY PAYMENTS BY THE PRODUCERS TO B.C. (FEDERAL TAXATION OF SUCH ROYALTY PAYMENTS IS AN INTEGRAL PART OF THE NEW FEDERAL RESOURCE TAXATION MEASURES AND IS THE PRIMARY CAUSE OF THE FEDERAL/PROVINCIAL DISPUTE.)

4. ACCORDING TO TORONTO GLOBE AND MAIL, BARRETT COMMENTED AFTER THE MEETING THAT THE FEDERAL GOVERNMENT HAD MADE A COUNTER-PROPOSAL TO HIM ON THE TAX ISSUE AND PREDICTED AN EARLY AGREEMENT WITH OTTAWA. WHILE REPORTEDLY ADAMANT THAT B.C. WOULD NOT REPEAT NOT RETURN ANY ADDITIONAL REVENUES TO PRODUCERS EVEN IF THE REVENUES WERE RETURNED SOLELY TO COVER THE INCREASED FEDERAL TAXES DEMANDED BY OTTAWA UNDER THE "FAIR MARKET VALUE SCHEME," BARRETT IS ATTRIBUTED WITH SAYING THAT B.C. MIGHT BE WILLING TO PAY THE EXTRA TAXES TO OTTAWA DIRECTLY IN THE FORM OF A "GRANT" FROM THE B.C. PETROLEUM CORP.

5. ALSO ACCORDING TO GLOBE AND MAIL OF JANUARY 15, BARRETT CONFIRMED THAT RECENT ACCUSATIONS MADE BY MINFIN TURNER THAT EXTRA REVENUE (\$90 TO \$100 MILLION) ACCRUING TO B.C. AS A RESULT OF NOVEMBER 1 INCREASE IN EXPORT PRICE TO \$1.00 HAD NOT REPEAT NOT BEEN COMMITTED TO GAS PIPELINE EXPANSION AS PLANNED WERE TRUE; BARRETT WOULD ONLY SAY THAT THE EXTRA REVENUES WOULD BE USED FOR UNSPECIFIED ACTIVITIES IN B.C. PORTER

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